No. 17-1657

IN THE

Supreme Court of the United States

MISSION PRODUCT HOLDINGS, INC.,

Petitioner,

—v.—

TEMPNOLOGY, LLC, N/K/A OLD COLD LLC,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

AMICUS CURIAE BRIEF OF THE INTERNATIONAL TRADEMARK ASSOCIATION IN SUPPORT OF PETITIONER

ELEANOR M. LACKMAN
COWAN, DEBAETS, ABRAHAMS & SHEPPARD LLP
41 Madison Avenue, 38th Floor
New York, New York 10010
(212) 974-7474

DAVID H. BERNSTEIN
Counsel of Record
JEFFREY P. CUNARD*
JEREMY FEIGELSON
JASMINE BALL
JARED I. KAGAN
ELIE J. WORENKLEIN
DEBEVOISE & PLIMPTON LLP
919 Third Avenue
New York, New York 10022
(212) 909-6696
dhbernstein@debevoise.com
*Resident in Washington, D.C. Office

Attorneys for Amicus Curiae The International Trademark Association

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AMICUS CURIAE BRIEF OF THE INTERNATIONAL TRADEMARK ASSOCIATION IN SUPPORT OF PETITIONER

The undersigned *amicus curiae* respectfully submits this brief in support of the petition for certiorari filed by petitioner Mission Product Holdings, Inc., seeking review of the decision of the United States Court of Appeals for the First Circuit.[1]

INTEREST OF THE *AMICUS CURIAE*

Founded in 1878, *amicus curiae* The International Trademark Association (INTA) is a not-for-profit organization dedicated to the support and advancement of trademarks and related intellectual-property concepts as essential elements of trade and commerce. INTA has more than 7,200 members in 191 countries. Its members include trademark owners as well as law firms and other professionals who regularly assist brand owners in the creation, registration, protection, and enforcement of their trademarks. All INTA members share the goal of promoting an understanding of the essential role that trademarks play in fostering

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[1] Both Petitioner and Respondent have provided their written consent to INTA's filing of a brief. This brief was authored solely by INTA and its counsel. No party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae*, its members, and its counsel made such a monetary contribution to its preparation or submission. *See* S. Ct. R. 37.6.

effective commerce, fair competition, and informed decision-making by consumers.

INTA (formerly known as the United States Trademark Association) was founded in part to encourage the enactment of federal trademark legislation after the invalidation on constitutional grounds of the United States' first trademark act. Since then, INTA has been instrumental in making recommendations and providing assistance to legislators in connection with almost all major trademark legislation, and has participated as *amicus curiae* in numerous cases involving significant trademark issues.[2] INTA members are

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[2] Cases in which INTA has filed *amicus* briefs include: *Matal v. Tam*, 137 S. Ct. 1744 (2017); *Hana Fin., Inc. v. Hana Bank*, 135 S. Ct. 907 (2015); *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293 (2015); *Pom Wonderful LLC v. Coca-Cola Co.*, 134 S. Ct. 2228 (2014); *Already, LLC v. Nike, Inc.*, 568 U.S. 85 (2013); *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004); *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003); *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003); *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001); *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000); *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627 (1999); *Dickinson v. Zurko*, 527 U.S. 150 (1999); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992); *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015); *Ferring B.V. Inc. v. Watson Laboratories, Inc.-Fla.*, 764 F.3d 1382 (3d Cir. 2014); *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holdings, Inc.*, 696 F.3d 206 (2d Cir. 2012); *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012); *Fleischer Studios, Inc. v. A.V.E.L.A.*,

frequent participants in licensing arrangements, are often parties in trademark-related litigation as both plaintiffs and defendants, and are also often parties in bankruptcy proceedings as both debtors and creditors.

INTA and its members have a particular interest in this case because the question presented – whether a debtor-licensor can terminate a trademark license by rejection, thereby "taking back" trademark rights it has licensed and precluding its licensee from using the trademark – is the most significant unresolved legal issue in trademark licensing. That issue has led to uncertainty in the market for trademark licenses. There is a growing circuit split on this issue, which the First Circuit's decision exacerbates.

Uncertainty regarding the status of trademark licenses involving a bankrupt licensor affects the broader business community, given that trademarks are the most widely used form of registered intellectual property. World Intellectual Property Organization, WORLD INTELLECTUAL PROPERTY

Inc., 654 F.3d 958 (9th Cir. 2011); *Levi Strauss & Co. v. Abercrombie & Fitch Trading Co.*, 633 F.3d 1158 (9th Cir. 2011); *Chloe v. Queen Bee of Beverly Hills, LLC*, 616 F.3d 158 (2d Cir. 2010); *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009); *ITC. Ltd v. Punchgini, Inc.*, 482 F.3d 135 (2d Cir. 2007); *Louis Vuitton Malletier, S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007); *Test Masters Educ. Servs. v. Singh*, 428 F.3d 559 (5th Cir. 2005).

REPORT: BRANDS – REPUTATION AND IMAGE IN THE GLOBAL MARKETPLACE 9 (2013). In light of the importance of trademarks to businesses and the economy, it hardly is surprising that trademark rights, in many instances, are among a debtor's key assets and that trademark issues frequently arise in the bankruptcy context.

The circuit split on the issue presented by the petition has affected the value of trademark license agreements, to the detriment of licensors, licensees, and the consumers they both serve. INTA members are interested in the development of clear, consistent, and equitable principles for bankruptcy proceedings that preserve and enhance the value of trademarks for all parties. Clear, consistent, and equitable rules not only will facilitate restructuring for debtors in bankruptcy, but they also will enhance the value of trademark licenses in the pre-bankruptcy context. These benefits, in turn, will help trademarks better perform their core function of helping guide consumers to the products and services they want, with reliable assurances of source and quality.

SUMMARY OF ARGUMENT

This Court should grant the petition for certiorari in order to resolve the substantial circuit split concerning whether debtor-licensors can terminate a trademark license by rejection, and to promote the strength and stability of the trademark system by adopting the rule articulated in *Sunbeam Prods, Inc. v. Chicago Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012).

In the decision below, the First Circuit held that a debtor, who has the right to "reject" executory contracts in order to eliminate contractual obligations that may interfere with a restructuring, may reject a trademark license agreement, and that the effect of that rejection is to permanently terminate the licensee's right to use the licensed trademark. Other courts have taken a different approach: They have held that the rejection of a trademark license agreement eliminates the debtor-licensor's requirement that it perform its obligations under the agreement (for example, the licensor need no longer undertake or fund enforcement efforts against infringers of the licensed mark, or defend third-party infringement claims brought against the licensee), but it does not terminate the licensee's right to continue to use the trademark under license.

The First Circuit plainly acknowledged the existence of a circuit split on this issue. The ongoing uncertainty harms trademark licensors, licensees, bankruptcy creditors, and consumers alike.

The Court should adopt the *Sunbeam* approach because it enhances the value of trademark licenses and promotes the stability of the trademark system:

- Licensors benefit because licensees will pay more up front or in royalties for licensed rights that survive a potential bankruptcy filing by the licensor.

- Licensees, who have substantial reliance interests in the licensed trademarks (*e.g.*, having hired employees and/or established manufacturing capacity to take advantage of the rights), will not suddenly find their rights rendered valueless by the licensor's decision to terminate a trademark license agreement through rejection in bankruptcy.

- Above all, the American public will be better off. The ultimate beneficiary of a strong trademark system is the consumer, who can rely on healthy trademarks as indicators of source and quality. William M. Landes and Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. LAW AND ECON. 265, 270 (1987).

Resolving this issue will have important consequences beyond the effect of rejecting a trademark license agreement. This case presents an opportunity to clarify the effect of rejection under

Section 365 of the Bankruptcy Code as a general matter. The *Sunbeam* approach is consistent with the broader equitable purposes of the Code, under which rejection of a contract generally is understood as a breach (with associated remedies) and not a termination of the agreement.

The purpose of rejection is to free the debtor from onerous contractual obligations that it otherwise would be required to perform (such as equipment lease payments or routine contracts for monthly services). Rejection never was intended to provide the debtor with a means to recover legal rights it had granted pre-petition through the artifice of unwinding trademark licenses. Adoption of the *Sunbeam* rule would enable licensors to optimize the value of licensing a trademark without stripping licensees of rights that they have acquired and as to which they may have made investments at substantial expense.

Uncertainty has percolated throughout the circuits since this Court denied certiorari in *Sunbeam*, and the circuit split has widened since then. This petition presents a rare opportunity to resolve the conflict. The nature of bankruptcy proceedings – with their emphasis on quick, negotiated resolutions – is such that pure questions of law (like the one here) often are not presented to this Court. A grant of certiorari is especially warranted where an issue that has split the circuits

arises fairly regularly in the lower courts but infrequently is raised before this Court.

For all these reasons, INTA urges the Court to grant certiorari and hear this case to adopt the holding in *Sunbeam*.

ARGUMENT

I. This Court Should Grant Certiorari to Resolve the Circuit Split by Adopting the *Sunbeam* Rule

A. The Split Below Is Substantial and Leads to Uncertainty

There can be no doubt that the lower courts are divided.

In *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), the Fourth Circuit held that, when a debtor-licensor rejects an executory license agreement, the rejection terminates the license. Because the license was treated as terminated, it required that the licensee discontinue all use of the licensed intellectual property, leaving the licensee with only a pre-petition damages claim for the value of the now-terminated license.

In 1987, Congress expressly abrogated *Lubrizol's* result with respect to licenses of patents, copyrights, and trade secrets, *see* 11 U.S.C. § 365(n), but expressly left open the question of the impact of

rejection on trademark licenses. With respect to trademark licenses, *Lubrizol* remains good law in the Fourth Circuit and courts in other circuits continue to rely on *Lubrizol* in holding that a licensee's rights are terminated upon rejection. *See, e.g., In re HQ Global Holdings, Inc.*, 290 B.R. 507, 512-13 (Bankr. D. Del. 2003); *In re Blackstone Potato Chip Co.*, 109 B.R. 557, 560-61 (Bankr. D.R.I. 1990); *In re Centura Software Corp.*, 281 B.R. 660, 673 (Bankr. N.D. Cal. 2002).

In *Sunbeam Prods., Inc. v. Chicago Mfg., LLC*, 686 F.3d 372 (7th Cir.), *cert denied*, 568 U.S. 1076 (2012), the Seventh Circuit reached the opposite conclusion. Judge Easterbrook's opinion for the court held that the rejection of a debtor-licensor's obligations under a trademark license agreement is a breach but not a termination. That is, the rejection relieves the licensor of any obligations under the agreement and is a breach that may cause harm to the licensee, for which the licensee might have a remedy. Under the Seventh Circuit's reasoning, however, rejection does not terminate either the licensee's right to continue using the licensed mark or its obligation to continue to comply with the license. Those obligations might include making any necessary royalty payments and maintaining quality control, which the licensor may continue to enforce.

The split extends beyond the Fourth and Seventh Circuits. Even before *Lubrizol*, the Ninth Circuit had offered reasoning in line with the Seventh Circuit,

indicating that rejection does not impair a licensee's ability to use licensed intellectual property pursuant to the contract. *In re Select-A-Seat Corp.*, 625 F.2d 290 (9th Cir. 1980) (per curiam).[3]

Similarly, in *In re Exide Techs.*, 607 F.3d 957 (3d Cir. 2010), Judge Ambro's concurring opinion advocated the *Sunbeam* approach. There, the licensee, whose license had been terminated by the debtor-licensor, had argued (1) that the license was not executory, and (2) that the court below had erred in determining that the rejection terminated the licensee's rights. The majority opinion in *Exide* did not reach the second issue[4] because it concluded that

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[3] Congress subsequently abrogated *Select-A-Seat*'s holding that rejection of a contract can void an exclusivity agreement. *See* 11 U.S.C. § 365(n)(1)(B) (stating that, upon rejection, a licensee can retain its rights "including a right to enforce any exclusivity provision"). Neither that congressional action, nor any subsequent Ninth Circuit caselaw, changes the view expressed in *Select-A-Seat* as to the effect of rejection on the licensee's ability to use licensed intellectual property after rejection.

[4] Although the court did not expressly reject *Lubrizol*'s treatment of "rejection" as termination, the decision does conflict with *Lubrizol*'s analysis of whether a trademark license is "executory." In an attempt to avoid *Lubrizol*, the majority held that the paid-up, perpetual trademark license was not executory because both the licensor and licensee had "substantially performed"; the licensor's obligation to maintain quality control was insignificant, noting that the licensor had never defined quality standards. 607 F.3d at 963-64. This may have distinguished *Lubrizol*; however, in suggesting that a

the license at issue was not executory. *Id.* at 964. In his concurrence, Judge Ambro did address the second issue: "a trademark licensor's rejection of a trademark agreement under 11 U.S.C. § 365 does not necessarily deprive the trademark licensee of its rights in the licensed mark." *Id.* at 965 (Ambro, J., concurring). He emphasized that the bankruptcy laws should not allow a licensor to take back rights that it had bargained away. *Id.* at 967.

Lower courts among the various circuits also are split. As noted above, bankruptcy courts in Delaware, Rhode Island and California have followed the *Lubrizol* approach; in contrast, bankruptcy courts in Colorado and New Jersey have followed the approach in *Sunbeam*. *See, e.g.*, *Banning Lewis Ranch Co. v. City of Colo. Springs (In re Banning Lewis Ranch Co.)*, 532 B.R. 335, 345 (Bankr. D. Co. 2015) ("rejection of a contract does not work a rescission of the contract and is not, itself, an avoiding power"; holding licensees under rejected contract could continue to use trademark rights granted under licenses) (citing *Sunbeam*, 686 F.3d at 377); *In re Crumbs Bake Shop, Inc.*, 522 B.R. 766, 770 (Bankr. D.N.J. 2014) ("This Court is not persuaded by the decision in *Lubrizol* and is not alone in finding that its reasoning has been discredited."); *see also In re Rent-A-Wreck of Am.*,

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licensor had not defined quality standards, it might suggest that the trademark license was naked.

Inc., 580 B.R. 364, 387 & n.156 (Bankr. D. Del. 2018) (noting the "unsettled area of rejection of trademark licenses," and recognizing that, regardless of which circuit court's view was adopted in the case, "further litigation" is "certain to follow" and could delay resolution of the bankruptcy case "for years.").

In the case that gives rise to the present petition, the First Circuit panel (which itself was split 2-1)[5] adopted the *Lubrizol* approach. It held that the rejection of a license agreement terminates the licensee's rights to use the licensed mark. The majority opinion expressly recognized that "other circuits are split" on the issue. *In re Tempnology, LLC*, 879 F.3d 389, 392 (1st Cir. 2018).

Since then, the split has grown even wider, with a bankruptcy court in Connecticut agreeing with *Sunbeam* and with the *Tempnology* dissent. *See In re Sima Int'l, Inc.*, Case No. 17-21761, 2018 WL 2293705, at *8 (Bankr. D. Conn. May 17, 2018). *Sima* criticized the *Tempnology* majority, holding that it "strains to resurrect *Lubrizol*, [and] is plainly contrary to Congress' explicit efforts to rebalance affected rights on intellectual property and leave

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[5] The majority reversed the First Circuit's Bankruptcy Appeal Panel, which, in a 3-0 decision, rejected *Lubrizol* and, in reversing the Bankruptcy Court, followed *Sunbeam*. In short, four judges in the First Circuit endorsed the *Sunbeam* approach and three endorsed the *Lubrizol* approach.

Section 365(g) to answer otherwise unresolved trademark issues."

This Court should grant the petition to resolve this conflict. All participants in the trademark licensing market will benefit from clear, consistent, and equitable rules concerning the rights of a debtor-licensor in bankruptcy. Moreover, neither licensors nor licensees should be subject to conflicts based solely on the court where the bankruptcy petition is filed. Forum shopping in bankruptcy proceedings (and otherwise) is considered by many, including this Court, to be undesirable. *See* Joint Press Statement of Senators Cornyn and Warren concerning Bankruptcy Venue Reform Act of 2018 (Jan. 8, 2018), *available at* https://www.cornyn.senate.gov/content/news/cornyn-warren-introduce-bill-prevent-%E2%80%98forum-shopping%E2%80%99-bankruptcy-cases ("Closing the loophole that allows corporations to 'forum shop' for districts sympathetic to their interests will strengthen the integrity of the bankruptcy system and build public confidence."); *see also Walker v. Armco Steel Corp.*, 446 U.S. 740, 745 (1980) (describing forum shopping as "undesirable").

Clarity alone will benefit all. *See generally* John E. Calfee & Richard Craswell, *Some Effects of Uncertainty on Compliance with Legal Standards*, 70 Va. L. Rev. 965 (1984) (uncertainty about legal standards leads to economic inefficiency). As set

forth below, INTA asks this Court to grant the petition for certiorari and to adopt the *Sunbeam* rule.

B. The *Sunbeam* Rule, Treating Rejection of a Debtor-Licensor's Contractual Obligations Under a Trademark License Agreement as a Breach but Not a Termination, Best Promotes the Strength and Stability of the Trademark System

The state of affairs under the current split helps no one. The Court, by granting the petition and adopting the *Sunbeam* rule, not only can resolve the ongoing uncertainty, but also can set down a rule that is consistent with bankruptcy law and promotes the overall health of the trademark system.

a) The *Sunbeam* Rule Is Consistent with the Bankruptcy Code.

The legislative history of Section 365(n) – which, as noted above, Congress enacted post-*Lubrizol* – makes clear that Congress did not intend to enable a debtor to cancel a pre-bankruptcy grant of intellectual property license rights through rejection: "[Section] 365 was [n]ever intended to be a mechanism for stripping innocent licensee[s] of rights." S. Rep. No. 100-505, at 4 (1988), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3203. "Congress never anticipated that . . . the licensee would lose not only any future affirmative performance required of the licensor under the

license, but also any right of the licensee to continue to use the intellectual property as originally agreed in the license agreement." *Id.* at 3, *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3201.

Significantly, that Section 365(n) did not include trademarks was not itself an endorsement of *Lubrizol*. Nor did it reflect a congressional intent that trademark licenses should be terminable by debtor-licensors. Rather, as the legislative history makes clear, Congress expressly intended that the courts consider and determine the effect of debtor rejection on trademark license rights:

> In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of ***equitable treatment of this situation by bankruptcy courts***.

S. Rep. No. 100-505, at 5 (1988), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3204 (emphasis added). Moreover, "an omission is just an omission," and the "limited definition [of 'intellectual property'] in §101(35A) means that §365(n) does not affect

trademarks one way or the other." *Sunbeam*, 686 F.3d at 375.

Congress' reference to bankruptcy courts developing "equitable treatment" of the handling of pre-petition trademark licenses granted by a debtor-licensor is entirely consistent with the basic equitable principles underpinning the Bankruptcy Code. *See Young v. United States*, 535 U.S. 43, 50 (2002) (bankruptcy courts "are courts of equity and 'appl[y] the principles and rules of equity jurisprudence'" (*quoting Pepper v. Litton*, 308 U.S. 295, 304 (1939))). These equitable principles have been cited by courts that have embraced the *Sunbeam* approach. *See, e.g., In re Exide*, 607 F.3d at 967 (noting that "[r]ather than reasoning from negative inference to apply another Circuit's holding to this dispute, the Courts here should have used, I believe, their equitable powers to give [the debtor] a fresh start without stripping [the licensee] of its fairly procured trademark rights.") (Ambro, J., concurring).

The *Sunbeam* rule also is consistent with the general principle of bankruptcy law that rejection of an executory contract does not terminate the contract, but simply is a breach. The purpose of Section 365 is not "to be the functional equivalent of a rescission, rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract was

formed." *Thompkins v. Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007); *see also id.* ("[r]ejection has absolutely no effect upon the contract's continued existence; the contract is not cancelled, repudiated, rescinded, or in any other fashion terminated." (quoting *In re Drexel Burnham Lambert Grp., Inc.*, 138 B.R. 687, 703 (Bankr. S.D.N.Y. 1992))); *Med. Malpractice Ins. v. Hirsch*, 114 F.3d 379, 386-87 (2d Cir. 1997) ("while rejection is treated as a breach, it does not completely terminate the contract"); *O'Neil v. Continental Airlines, Inc. (In re Continental Airlines)*, 981 F.2d 1450, 1459 (5th Cir. 1993) ("[t]o assert that a contract effectively does not exist as of the date of rejection is inconsistent with deeming the same contract breached"); *In re Modern Textile, Inc.*, 900 F.2d 1184, 1191 (8th Cir. 1990); *Leasing Serv. Corp. v. First Tenn. Bank Nat'l Ass'n*, 826 F.2d 434, 436–37 (6th Cir. 1987); *In re Austin Dev. Co.*, 19 F.3d 1077, 1082 (5th Cir. 1994).

Section 365 permits the debtor to free itself from burdensome contractual obligations that would impede its ability to obtain a fresh start. For example, a debtor-lessee can reject a non-residential property lease that requires it to pay above-market rents or a lease for equipment. In both cases, the creditor-lessor would lose the benefit of the payment stream (and would become a creditor with a claim for damages against the debtor), but at least the lessor would have its property back and could lease it to

another party. *See generally NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 528 (1984) ("authority to reject an executory contract is vital to the basic purpose of a Chapter 11 reorganization, because rejection can release the debtor's estate from burdensome obligations that can impede a successful reorganization"); *Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095, 1098 (2d Cir. 1993) ("§ 365 permits the trustee or debtor-in-possession, subject to the approval of the bankruptcy court, to go through the inventory of executory contracts of the debtor and decide which ones it would be beneficial to adhere to and which ones it would be beneficial to reject").

Rejection of a trademark license agreement similarly may allow a debtor-licensor to avoid some burdensome contractual obligations in a trademark license. These might include the obligation to pursue or maintain trademark registrations in multiple jurisdictions or undertake or fund enforcement actions against third parties who are infringing the licensed mark.

Trademark licensors have continuing statutory obligations to maintain quality control over the licensee's use of the licensed trademark to preserve their rights in the trademark. That, however, is not the sort of contractual obligation that may be terminated through rejection. That is because the continuing obligation of a trademark owner to

maintain quality control is based on statute, *see* 15 U.S.C. § 1055, wholly independent of any contractual obligations, rejected or otherwise.

As a statutory obligation, the requirement that the licensor assert quality control over its licensee's use serves a broader public purpose beyond the contractual obligations that might be at issue when a debtor-licensor decides whether to reject a contract in bankruptcy. *See Gorenstein Enters., Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) ("The purpose of a trademark, after all, is to identify a good or service to the consumer, and identity implies consistency and a correlative duty to make sure that the good or service really is of consistent quality."); *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959) ("Without the requirement of control, the right of a trademark owner to license his mark separately from the business in connection with which it has been used would create the danger that products bearing the same trademark might be of diverse qualities."). The *Lubrizol* rule, which would give debtor-licensors a right in bankruptcy that would abrogate this statutory requirement, would "make[] bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve." *In re Exide*, 607 F.3d at 967-68 (Ambro, J., concurring).

Equitable principles support this result, particularly given that "the standards for sufficient

control have become more and more lenient in recent years." Laura Jelinek, *Equity for Brand Equity: The Case for Protecting Trademark Licensees in Licensor Bankruptcies*, 40 AIPLA Q.J. 365, 389-90 (2012). Any burden on the debtor-licensor to ensure that its licensee maintains quality controls is lessened by the licensee's contractual obligations to maintain quality control, including in the bankruptcy context. *In re Crumbs Bake Shop, Inc.*, 522 B.R. at 773.

The licensee of trademark rights should not be forced to live in fear that the licensor, having licensed these rights for consideration, may be entitled years later to take them back in a bankruptcy. Once the license is granted, the licensed rights (as distinct from title in the underlying trademarks) represent property of the licensee, not of the licensor. The licensor should not be entitled to rescind the grant and reclaim the licensed rights.

b) The *Sunbeam* Rule Promotes the Strength and Stability of the Trademark System.

The market for trademark licenses is enormous, diverse, and global. Licenses are granted in myriad circumstances, from the sale of a business (where the purchase price includes an up-front payment for the license), to distribution and manufacturing arrangements (where the licensed mark is central to the success of the licensees' business). That market will function best under the *Sunbeam* rule. The

Lubrizol approach contributes to uncertainty over trademark rights in bankruptcy, to the detriment of licensors, licensees, and consumers.

Trademark licensors in non-bankruptcy contexts have a strong interest in obtaining full value for their assets. Yet the circuit split means that it will be more difficult for a trademark licensor – especially one in financial distress and trying to stave off bankruptcy by generating cash – to obtain full value for pre-bankruptcy licenses of its trademarks.

It is basic economics that a potential licensee (or any contracting party) generally will pay less to a licensor for rights that would be impaired in the event of a later bankruptcy. In assessing the impact of *Lubrizol* on a licensor that might become bankrupt, a rational licensee will insist on paying a discounted price for a trademark license because that decision puts it at the mercy of the licensor as to whether it can continue to use the mark if the licensor is put into bankruptcy. *See* Nicholas W. Quesenberry, *Risky Business: How the Economic Impact of the Risk of Debtor Default Mandates Application of the Presumptive-Contract Interest Rate in the Case of a Cramdown Plan against a Secured Creditor with a Lien on Personal Property in Chapter 13*, 22 J. BANKR. L. & PRAC. 2 Art. 5. (2013) ("It is manifest that any disinterested buyer would be willing to pay less for a riskier, less stable income

stream and more for a more stable and reliable one.").

Licensees, too, are harmed by the current uncertainty in the law. A licensee that does not know whether its license might be subject to termination in bankruptcy will be less willing to invest capital in the sort of resources – personnel, machinery or other production capacity, advertising and promotion – that would enable it to maximize sales and fully profit from its license. If this results in failing to maximize sales, that, too, will reduce royalties to the trademark licensor, rendering the transaction less economically beneficial for both parties.

Moreover, it is the experience of INTA's members that licensors and licensees alike are forced by the uncertainty of the circuit split to engage in extensive and costly negotiations in the pre-bankruptcy context. Not knowing what legal rule will apply, they must work to craft customized contract provisions to try and mitigate the impact of a possible termination. In some cases, to minimize the risk created by *Lubrizol*, parties to a transaction may agree to establish a bankruptcy remote vehicle that would hold and license the trademarks, so that the "remote" licensor would not be swept into a bankruptcy of the operating company. This drains resources from more productive activity, and potentially results in lower pricing due to risk allocation from negotiation.

The *Sunbeam* rule best resolves these concerns and promotes stability of the trademark system as a whole. The rule relieves the licensor of any obligations under a trademark license agreement, but does not terminate the licensee's right to continue to use the licensed mark or its obligation to continue to comply with the license, including by maintaining quality control over the licensed product (which the licensor may continue to enforce), thus also benefiting the public.

Trademark licensors also would benefit from this regime where licensees, knowing their rights will be more valuable in any eventual bankruptcy proceeding, are incentivized to pay more for those rights in pre-bankruptcy negotiations.

The *Sunbeam* rule also is more equitable. As commentators have noted, licensees may be greatly dependent upon the licensed intellectual property rights and, as a result, could experience serious financial and other damage if a license is terminated upon a rejection in bankruptcy. David M. Jenkins, *Licensees, Trademarks, and Bankruptcy, Oh My!: Trademark Licensing and the Perils of Licensor Bankruptcy*, 25 J. MARSHALL L. REV. 143, 175 (1991). (When a licensor rejects a trademark license, "[a] trademark licensee risks the total abrogation of its right to use a trademark, a valuable property right . . . [and] licensees must continue to bear the economic burden of trademark owners' mismanagement and

thus needlessly risk the loss of their investments."). The debtor may be protected under *Lubrizol*, but the licensee has no such protection: It may find itself severely injured financially, perhaps so badly that it could go out of business.

In sum, *Sunbeam*'s approach is more equitable because it takes both parties' interests into account.

II. This Case Presents a Rare Opportunity to Clarify a Commercially Critical Area of the Law

This Court has repeatedly recognized the significance of trademarks and trademark licenses to the United States economy. *See, e.g., Am. Needle, Inc. v. Nat'l Football League*, 560 U.S. 183 (2010) (addressing antitrust issues concerning trademark licensing by the National Football League); *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988) (addressing validity of Customs Service regulation concerning importation of foreign-made goods where United States trademark owner authorized use of the mark); *United States v. Sealy, Inc.*, 388 U.S. 350 (1967) (addressing antitrust issues concerning trademark licensing for mattresses). In that light, this case is particularly important.

In 2014, trademarks accounted for $6.1 trillion in value added to the U.S. gross domestic product. Economics and Statistics Administration & United States Patent and Trademark Office, INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: 2016 UPDATE 22

(2016). In the United States alone, trademark licensors generated $7.3 billion in royalty revenue from the licensing of goods and services in 2014. Licensing Industry Merchandisers' Association, LIMA GLOBAL LICENSING INDUSTRY SURVEY 2015 REPORT 15 (2015). This translates into an estimated $133.3 billion in retail sales of licensed goods and services. *Id.* at 14.

Licensing provides a significant stream of revenue for trademark licensors, not to mention extensive commercial opportunities. Irene Calboli, *The Sunset of "Quality Control" in Modern Trademark Licensing*, 57 AM. U. L. REV. 341, 343 (2007). By allowing trademark licensors to outsource the manufacturing or distribution of a product to specialized licensees who can do so more cheaply or effectively, for example, licensing allows licensors to distribute workloads and enjoy the benefits of economies of scale. *See* David J. Franklyn, *The Apparent Manufacturer Doctrine, Trademark Licensors and the Third Restatement of Torts*, 49 CASE W. RES. L. REV. 671, 681 (1999). Licenses also enable licensors to increase brand recognition and to reach new markets.

Just as trademarks are more widely used than other forms of intellectual property (*see* pp. 3-4 *supra*), trademark licenses are central to bankruptcies involving intellectual property rights. "[S]ince 1988, out of 1100 bankruptcy filings

concerning intellectual property, over 600 involve trademarks." Kayvan Ghaffari, *The End to an Era of Neglect: The Need for Effective Protection of Trademark Licenses*, 87 S. CAL. L. REV. 1053, 1054 (2014). It thus is imperative that licensors and licensees both have the benefit of the clear and salutary *Sunbeam* rule.

This case presents a rare opportunity. This is the first time since 2012 (when the Court denied certiorari in *Sunbeam*) that the Court has had the opportunity to address this issue. The relative rarity of appeals on this issue hardly is surprising. In most instances, bankruptcy appeals must travel through an extra layer of appellate review to reach this Court. A bankruptcy order ordinarily must be appealed to the district court, and only then to the court of appeals. 28 U.S.C. §§ 158(a), (d). Given the need to preserve the assets of the bankruptcy estate, a trustee or licensee often will be unwilling to continue litigating a case through four different courts, and thus may decline to appeal or to seek certiorari, or may choose to settle rather than go through multiple rounds of appellate review.

Even where the litigants are willing to take a bankruptcy case all the way to this Court, the bankruptcy doctrine of "equitable mootness" may preclude appellate review. Under that doctrine, an appellate court may decline to review the merits of a bankruptcy appeal "when, even though effective

relief conceivably could be fashioned, implementation of that relief would be inequitable" because the debtor's plan of reorganization has been confirmed and "substantially consummated." *E.g.*, *In re Charter Commc'ns, Inc.*, 691 F.3d 476, 481-82 (2d Cir. 2012) (citation omitted). That doctrine is not applicable here because no plan of reorganization has been filed, and there plainly is monetary relief that could be granted to petitioner.[6]

Despite the fact that the issue presented by the petition is not likely to come again soon before this Court, it frequently is liti[illegible]ted below and is of day-to-day concern to trademark owners and practitioners as it affects essentially every trademark license. As long as there is continued uncertainty, that will continue to harm licensors, licensees, and the consuming public. INTA urges this Court to take advantage of the opportunity before it to resolve the split and to adopt the approach taken in *Sunbeam*.

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[6] The equitable mootness doctrine has been criticized because it "can easily be used as a weapon to prevent any appellate review of bankruptcy court orders confirming reorganization plans." *Nordhoff Invs., Inc. v. Zenith Elecs. Corp.*, 258 F.3d 180, 192 (3d Cir. 2001) (Alito, J., concurring).

CONCLUSION

The Court should grant the petition for a writ of certiorari.

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Respectfully submitted,

ELEANOR M. LACKMAN
COWAN, DeBAETS,
ABRAHAMS & SHEPPARD
LLP
41 Madison Avenue
New York, NY 10010
(212) 974-7474

DAVID H. BERNSTEIN
Counsel of Record
JEFFREY P. CUNARD*
JEREMY FEIGELSON
JASMINE BALL
JARED I. KAGAN
ELIE J. WORENKLEIN
DEBEVOISE & PLIMPTON
LLP
919 Third Avenue
New York, NY 10022
(212) 909-6696
dhbernstein@debevoise.com

*Resident in Washington,
D.C. Office

COUNSEL FOR *AMICUS CURIAE*
THE INTERNATIONAL TRADEMARK ASSOCIATION